

Frequently Asked Questions About Constitutional Amendment #1

What is Constitutional Measure #1?

- Constitutional Measure #1 amends Article IX of the North Dakota Constitution.
- Constitutional Measure #1 will be on the November 7, 2006 general election ballot.
- Constitutional Measure #1 changes the way distributions from the Common Schools Trust Fund and the state's other permanent educational trust funds are determined.

What is the Purpose of Constitutional Measure #1?

The purpose of Constitutional Measure #1 is to:

- Protect the state educational trust funds from inflation.
- Provide stable distributions to trust fund beneficiaries.
- Give the Land Board the ability to better invest the trust funds for both current and future beneficiaries.

Constitutional Measure #1 will allow the Land Board to:

- Manage the educational trust funds more efficiently and effectively.
- Manage the educational trust funds using the modern universally accepted investment principles that most major college endowments and other large state permanent trust funds currently use.

What Does Constitutional Amendment #1 Do?

If Constitutional Measure #1 is passed by the voters of North Dakota:

- Distributions from the educational trust funds will be based on the value of each trust fund's assets and the growth of those assets over time.
- Biennial distributions from each educational trust fund would be "ten percent of the 5-year average value of trust assets, excluding the value of land and minerals". Half of that amount would be distributed during each year of the biennium.
- The Land Board will be able to make longer-term investment decisions that emphasize maintaining the purchasing power of the trusts while also providing stable and reliable distributions to beneficiaries.
- Current distributions will not be reduced; however, stronger trust growth should result in higher and more stable distributions to future generations.

Distributions are currently based on the amount of interest and income earned by each trust during a fiscal year:

- The reliance on current income can lead to short-term investment decisions that are not in the best long-term interests of the trusts.
- The reliance on current income can result in volatile distributions and distribution shortfalls as fluctuating interest rates directly impact distributions.
- The method currently used to determine distributions was established over 100 years ago, at statehood. The type of assets owned by the trust funds, investment markets and trust management principles have all changed substantially since then.

What Does a "YES" Vote Mean? What Does a "NO" Vote Mean?

A "YES" VOTE ON MEASURE #1	A "NO" VOTE ON MEASURE #1
The Land Board will make investment decisions that emphasize the long-term goal of maintaining the purchasing power of the trust funds while providing stable and reliable distributions to trust beneficiaries.	Investment decisions will continue to be made based on the need to generate income under current market conditions. Short-term decisions can conflict with the long-term interests of the trusts.
Trust assets will be managed in a more efficient manner that will allow the Land Board to maximize returns and minimize the risk of the entire portfolio.	Trust assets will continue to be managed for two distinct purposes. Some assets will be managed for income while others will be managed for growth.
Distributions will be based on the value of the financial assets in the trust funds and the growth of those assets over time. Using a 5-year average value to determine distributions will help stabilize trust distributions.	Distributions will continue to be based on the amount of interest and income generated by each trust fund during a fiscal year. This can lead to more volatile distributions, as fluctuating interest rates directly impact distributions.
Trust distributions will be set prior to each legislative session. Distributions will always equal budgeted amounts.	Income projections will continue to be made prior to each legislative session. If actual income falls short of projections, distributions may be less than budgeted amounts.

What Are the State Educational Trust Funds?

The Land Board currently manages the Common Schools Trust Fund and 12 other permanent trust funds that are governed by Article IX of the North Dakota Constitution.

- The trust funds were established at statehood when the Federal Government granted the state 3.2 million acres of land "for the support of common schools" and other public institutions. Over time, much of this land was sold.
- As of June 30, 2005, the 13 educational trust funds owned approximately 714,000 surface acres, 2.5 million mineral acres and \$727 million of financial assets.
- Revenues are generated through the prudent management of trust assets. Surface acres are leased to ranchers and farmers and mineral acres are leased for oil, gas, coal, gravel and scoria exploration and development.
- Revenues from all sources are invested in a diverse portfolio of financial assets, which includes stocks, bonds, farm loans and other assets.
- The interest and income earned by the trust funds each year is paid out to beneficiaries in accordance with the constitution and state law. During the 2005-2007 biennium, the 13 educational trust funds will distribute a total of \$33.4 million per year to beneficiaries.

The Common Schools Trust Fund benefits K-12 education and is the largest trust managed by the Land Board with total financial assets of over \$680 million.

- Distributions from the Common Schools Trust Fund are part of the annual tuition apportionment payments made to school districts.
- Distributions from this trust totaled \$30.0 million per year during the 2003-05 biennium, or approximately \$287 per year for each child in kindergarten through grade 12.
- Distributions from this trust will be \$31.1 million per year during the 2005-07 biennium, or approximately \$307 per pupil per year.

Who are the Beneficiaries of the State Educational Trust Funds?

Common Schools (K-12 education)

and
North Dakota State University
School for the Blind
School of the Deaf
State Hospital
Valley City State University
Mayville State University

North Dakota Youth Correctional Center
State College of Science
School of Mines
Veterans Home
University of North Dakota
Dickinson State University
Minot State University
Minot State University - Bottineau

**ALL CITIZENS OF NORTH DAKOTA BENEFIT FROM THE STATE EDUCATIONAL TRUST FUNDS
THROUGH REDUCED TAXES TO FUND EDUCATION AND OTHER GOVERNMENT FUNCTIONS**

Who is the Board of University and School Land?

- The North Dakota Board of University and School Lands (Land Board) is made up of the Governor, the Secretary of State, the Attorney General, Superintendent of Public Instruction, and the State Treasurer.
- Article IX of North Dakota's Constitution entrusts the management of the state educational trust funds to the Land Board. The Land Board is required to manage the state trust funds in a prudent manner, for the benefit of both current and future beneficiaries.

**The Land Board supports passage of Constitutional Measure #1 by
North Dakota voters during the November 7, 2006 general election.**

History of Constitutional Measure #1

- Over the past ten years, two different investment consultants have performed studies for the Land Board to determine how to best manage the state educational trust funds.
- Both studies recommended that the Land Board manage the permanent trusts as proposed in Constitutional Measure #1.
- House Concurrent Resolution (HCR) 3037 (Constitutional Measure #1) was introduced to the 59th Legislative Assembly by legislative leaders at the Land Board's request.

HCR 3037 was passed by the House by a vote of 84-1

HCR 3037 was passed by the Senate by a vote of 41-4.

This information is provided by the ND State Land Department.

For additional information about Constitutional Measure #1
please contact the North Dakota State Land Department at
701-328-2800 or go to our web site at www.land.state.nd.us.